

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

**Compliance Audit of
Hawaiian Airlines, Inc.**



October 13, 2010

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
 - Objectivity of the auditors performing the work.
 - Competent staff, including continuing professional education.
1. Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Paige Alderete, Audit Manager
Vivian Chu, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

October 13, 2010

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

John L. Martin, Director
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President, Members, and Director Martin:

The Controller's Office, City Services Auditor (CSA), presents its report concerning the audit of Hawaiian Airlines, Inc. (Hawaiian). Hawaiian has an airline operating permit from the Airport Commission of the City and County of San Francisco (City) to use the landing facilities at San Francisco International Airport (SFO) for its air transportation business.

Reporting Period: July 1, 2008, through June 30, 2010

Fees Paid: \$707,297

Results:

Hawaiian reported 744 revenue aircraft landings to the Airport Department (Airport) for the audit period but overreported two revenue aircraft landings in June 2010. Hawaiian incorrectly reported the aircraft type for 16 revenue aircraft landings in August 2009 and two revenue aircraft landings in January 2010. As a net result of these errors, Hawaiian overpaid \$1,307 in landing fees to the Airport.

The responses from the Airport and Hawaiian are attached to this report. The Controller's Office, City Services Auditor, will work with the Airport to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Tonia Lediju
Director of Audits

cc: Mayor
Board of Supervisors
Budget Analyst
Civil Grand Jury
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of City-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. This audit was conducted under that authority and pursuant to an audit plan agreed to by the Controller and the Airport Department (Airport).

Background

Hawaiian Airlines, Inc. (Hawaiian) has an airline operating permit (permit) from the Airport Commission (Commission) of the City to use the landing facilities at San Francisco International Airport (SFO) for its air transportation business. The permit, which commenced on May 1, 1997, requires Hawaiian to submit to the Airport a monthly report showing Hawaiian's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges Hawaiian a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which Hawaiian has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During the audit period, the Airport's fee per 1,000 pounds was \$3.00 for fiscal year 2008-09, and \$3.15 for fiscal year 2009-10.

Scope and Methodology

The purpose of this audit was to determine whether Hawaiian complied with the reporting and payment provisions of its permit. The audit covered the period from July 1, 2008, through June 30, 2010.

The audit team conducted this audit by:

- Examining the applicable terms of Hawaiian's permit and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings.
- Testing whether Hawaiian accurately reported its revenue aircraft landings and the maximum landing weights of its aircrafts that landed at SFO.

- Verifying whether Hawaiian had any outstanding landing fee payments due to the Airport for the audit period.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

**Hawaiian Airlines
Overpaid
Its Landing Fees by
\$1,307**

Hawaiian Airlines, Inc. (Hawaiian) reported 744 revenue aircraft landings, for which it paid \$707,297 in landing fees to the Airport for the period from July 1, 2008, through June 30, 2010.

Due to errors in preparing monthly reports to the Airport, Hawaiian overreported two revenue aircraft landings in June 2010. Hawaiian also incorrectly reported the aircraft type for 16 revenue aircraft landings in August 2009 and two revenue aircraft landings in January 2010. As a net result of these errors, Hawaiian overpaid \$1,307 in landing fees to the Airport.

The exhibits below show Hawaiian's reported landings and fees paid (Exhibit 1) and the calculation of the overpaid landing fees (Exhibit 2) based on the number of audited landings.

EXHIBIT 1	Number of Reported Landings and Landing Fees Paid July 1, 2008, Through June 30, 2010
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Period	Number of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Paid
July 1, 2008 through June 30, 2009	371	115,320,000	\$3.00	\$345,960
July 1, 2009 through June 30, 2010	373	114,710,000	3.15	361,337
Total	744	230,030,000		\$707,297

Source: Airport reports on landing fees and aircraft landings.

EXHIBIT 2 **Calculation of Net Overpaid Landing Fees**
July 1, 2008, Through June 30, 2010

Month/Aircraft Type	Landing Weights (in lbs)	Reported Landings	Audited Landings	Over/(Under) reported Landings	Rate per 1,000 lbs	Over/(Under) Paid Fees
June 2010 B767-300 ER	320,000	13	11	2	\$3.15	\$2,016
January 2010 B767-300	295,000	10	9	1	3.15	929
January 2010 B767-300 ER	320,000	22	23	(1)	3.15	(1,008)
August 2009 B767-300	295,000	20	12	8	3.15	7,434
August 2009 B767-300 ER	320,000	12	20	(8)	3.15	(8,064)
Total		77	75	2		\$1,307

Source: Auditor's analysis of the Airport's reports on landing fees and aircraft landings.

Recommendations:

The Airport should:

1. Refund \$1,307 to Hawaiian for its overpaid landing fees in the audit period.
2. Require Hawaiian to report the correct number of landings on each Monthly Air Traffic Activity Report, as required by the permit.

ATTACHMENT A: AIRPORT'S RESPONSE



San Francisco International Airport

San Francisco International Airport
San Francisco, CA 94128
(415) 771-3000
www.sfo.gov

September 29, 2010

Ms. Tonia Lediju
Director of Audits
City Hall, Room 316
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Hawaiian Airlines, Inc.

Dear Tonia:

The Airport agrees on the audit findings to credit Hawaiian Airlines, Inc. ("Hawaiian") for the overpayment of its landings fees in the amount of \$1,307.00. Furthermore, the Airport will advise Hawaiian to review its records thoroughly when reporting future aircraft landings to prevent such discrepancies from occurring again.

If you have any questions, please feel free to call me at (650) 821-4530.

Sincerely,

Dan Ravina
Senior Property Manager
Aviation Management

Attachment

AUDIT RECOMMENDATIONS AND RESPONSES

Recommendation	Responsible Agency	Response
The Airport should:		
1. Refund \$1,307 to Hawaiian for its overpaid landing fees in the audit period.	Airport	Airport concurs on the recommendation to credit Hawaiian Airlines, Inc. for \$1,307 for the overpayment of landing fees.
2. Require Hawaiian to report the correct number of landings on each Monthly Air Traffic Activity Report, as required by the permit.	Airport	Airport concurs with the recommendation, and will advise Hawaiian to report the correct numbers of landings on each Monthly Air Traffic Report, as required by the permit.

ATTACHMENT B: HAWAIIAN AIRLINES' RESPONSE



HAWAIIAN
— AIRLINES —

October 6 2010

Ms. Tonia Lediju
Director of Audits
City Hall, Room 316
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: Compliance Audit of Hawaiian Airlines, Inc.

Dear Tonia,

Hawaiian Airlines, Inc. (Hawaiian) agrees with the findings of the audit as we held a concurrent review and found similar findings. As a result, we sent revised MATAR for the month(s) found to have discrepancies and payments/credits subsequently processed.

Furthermore, to address the weakness detected in our reporting which resulted in these errors HA (Hawaiian) has adopted a practice of a secondary verification process whereby another manager will check the accuracy of the information reported.

If there are any questions, please feel free to contact me.

Best regards,

Tasha Eldridge
Hawaiian Airlines – SFO
Station Manager
Tasha.Eldridge@Hawaiianair.com

